

**NORTH STAR PREPARATORY
ACADEMY, INC.**

Financial Statements

**Government Auditing Standards and Other Required
Reports**

Year Ended June 30, 2006

(With Independent Auditors' Report Thereon)

NORTH STAR PREPARATORY ACADEMY, INC.
Financial Statements
Government Auditing Standards and Other Required Reports
Year Ended June 30, 2006

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**The Board of Directors
North Star Preparatory Academy, Inc.**

Independent Auditors' Report

We have audited the accompanying statement of financial position of North Star Preparatory Academy, Inc. (a nonprofit corporation) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Star Preparatory Academy as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2006 on our consideration of North Star Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schmitt, Giffith, Linn & Co., P.C.
October 6, 2006



NORTH STAR PREPARATORY ACADEMY, INC.
Statement of Financial Position
June 30, 2006

ASSETS

Current assets:

Cash	\$	239,765
Accounts receivable		<u>5,703</u>
Total current assets		245,468
Property and equipment, net		<u>325,722</u>
	\$	<u><u>571,190</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	25,322
Related party payables		2,137
Accrued liabilities		<u>68,891</u>
Total current liabilities		<u>96,350</u>

Net assets:

Unrestricted		474,840
Temporarily restricted		-
Permanently restricted		<u>-</u>
Total net assets		<u>474,840</u>
	\$	<u><u>571,190</u></u>

NORTH STAR PREPARATORY ACADEMY, INC.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and gains:			
Grants:			
Federal	\$ -	\$ 103,640	\$ 103,640
State	2,024,482	132,016	2,156,498
Local	53,284	-	53,284
Net assets released from restriction	<u>235,656</u>	<u>(235,656)</u>	<u>-</u>
Total revenue, net of assets released from restriction	<u>2,313,422</u>	<u>-</u>	<u>2,313,422</u>
Expenses:			
Instructional - teachers	1,198,857	-	1,198,857
Instructional - aides	31,089	-	31,089
Administration operations	122,914	-	122,914
Student support service	39,932	-	39,932
Operation and maintenance of facility	513,436	-	513,436
Depreciation	<u>38,136</u>	<u>-</u>	<u>38,136</u>
Total expenses	<u>1,944,364</u>	<u>-</u>	<u>1,944,364</u>
Increase in net assets	369,058	-	369,058
Net assets, beginning	<u>105,782</u>	<u>-</u>	<u>105,782</u>
Net assets, ending	<u>\$ 474,840</u>	<u>\$ -</u>	<u>\$ 474,840</u>

See accompanying notes and independent auditors' report.

NORTH STAR PREPARATORY ACADEMY, INC.
Statement of Cash Flows
Year Ended June 30, 2006

Cash flows from operating activities:

Increase in net assets	\$ <u>369,058</u>
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	38,136
Changes in operating assets and liabilities:	
Accounts receivable	140,034
Accounts payable	(61,571)
Related party payable	(72,184)
Accrued payables	<u>68,891</u>
Total adjustments	<u>113,306</u>
Net cash flows from operating activities	<u>482,364</u>

Cash flows from investing activities:

Acquisition of property and equipment	<u>(245,435)</u>
Net cash flows from investing activities	<u>(245,435)</u>

Cash flows from financing activities

Net change in cash	236,929
Cash, beginning	<u>2,836</u>
Cash, ending	<u>\$ <u>239,765</u></u>

See accompanying notes and independent auditors' report.

NORTH STAR PREPARATORY ACADEMY, INC.
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of North Star Preparatory Academy (the Academy) is presented to assist in understanding the Academy's financial statements. The financial statements and notes are representations of the Academy's management, who are responsible for their integrity and objectivity.

Operations and Purpose

The Academy was formed in 2005 and is a non-profit institution, which was organized under the non-profit corporation laws of the State of Utah. The Academy was organized by a group of parents, teachers, and business professionals to provide an educational opportunity in North Salt Lake that was not governed by the local School District. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or through volunteering time in the classroom or with other needs the school may have as they arise.

Method of Accounting

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents

The Academy considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTH STAR PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006

(1) Summary of Significant Accounting Policies, Continued

Restrictions on Net Assets

Unrestricted Net Assets – The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

Temporarily Restricted Net Assets – Donor restricted support is reported as an increase in temporarily restricted net assets. Temporarily restricted net assets are funds that are subject to restrictions of time or use by the donor. The restrictions are removed after the specified dates or after the occurrence of an event specified by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. There was no temporarily restricted net asset balance at the year-end June 30, 2006.

Permanently Restricted Net Assets – Permanently restricted net assets represents the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the Academy. There was no permanently restricted net asset balance at the year-end June 30, 2006.

Contributions

The Academy has adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Property and Equipment

Property and Equipment is recorded at cost. The Academy provides for depreciation of property and equipment using the straight-line method in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. The estimated useful lives are between three and ten years and individual items with a purchase cost over \$500 are depreciated rather than expensed.

Depreciation expense for the year ended June 30, 2006 was \$38,136.

NORTH STAR PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006

(1) Summary of Significant Accounting Policies, Continued

Tax Status

The Academy is exempt from federal income taxes or excise taxes under Section 501(c) (3) of the Internal Revenue Code.

Contributed Services and In-Kind Donations

During the year ended June 30, 2006, many individuals volunteered their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services.

(2) Property and Equipment

Property and equipment at June 30, 2006 are comprised of the following:

Furniture and equipment	\$ 120,014
Computers	118,410
Textbooks	97,926
Library books	37,976
	<u>374,326</u>
Less accumulated depreciation	<u>(48,604)</u>
	<u>\$ 325,722</u>

(3) Related Party Transactions

Accounts Payable Transactions

The Academy shares a cellular telephone plan with another entity related by common management. For the year ended June 30, 2006 related party accounts payable transactions totaled \$958. This amount is due monthly.

NORTH STAR PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006

(3) Related Party Transactions, Continued

Operating Lease Agreement

The Academy leases a facility under an operating lease with North Salt Lake School Development, LLC, a limited liability company related by common management, expiring July 2010. Rental expense recognized under this lease for the year ended June 30, 2006 was \$394,167. Rent is adjusted from time to time during the life of the lease based on the consumer price index.

Future minimum lease payments under this operating lease are as follows:

<u>Years Ending June 30,</u>		<u>Amount</u>
2007	\$	447,538
2008		447,538
2009		447,538
Thereafter		-
	\$	<u>1,342,614</u>

(4) Grants

The Academy received money in the form of grants from federal, state, and local sources. The total amount of grants received for the year ended June 30, 2006 is \$2,313,422.

(5) Retirement Plan

The Academy has a defined contribution retirement plan covering all full-time, salaried employees. The plan is administrated by A Plus Benefits of Idaho, an outsource company that the Academy has contracted with, to perform its payroll and retirement functions. Eligible employees may contribute money into an account, at their option and discretion. The Academy does not match employee contributions. The plan accepts new enrollments at any time in the year after completing a 90-day probationary period. Contribution changes can be made quarterly on or before the 15th day of the last month of the calendar quarter. Contributions to the plan for the year ended June 30, 2006, totaled \$96,070.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Board of Directors
North Star Preparatory Academy**

We have audited the financial statements of North Star Preparatory Academy as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Star Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Star Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information of the audit committee, administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Higgins, Smea : C.P.C.

October 6, 2006

A. CPA
C. CPA
M. CPA
P. CPA
T. CPA
C. CPA

Independent Auditors' Report
State of Utah Legal Compliance

The Board of Directors
North Star Preparatory Academy

We have audited the basic financial statements of North Star Preparatory Academy, a nonprofit corporation, for the year ended June 30, 2006 and have issued our report thereon dated October 6, 2006. As part of our audit, we have audited North Star Preparatory Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The Academy received the following major state assistance programs from the State of Utah:

Minimum School Program

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Administration
Purchasing Requirements
Budgetary Compliance
Other General Compliance Issues

The administration of North Star Preparatory Academy is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.



In our opinion, North Star Preparatory Academy, complied, in all material respects, with the with the general compliance requirements identified above and the requirements governing types of service allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Schnitz, Higgins, Simon & Co., P.C.

October 6, 2006

NORTH STAR PREPARATORY ACADEMY, INC.
State Compliance Schedule of Audit Findings
June 30, 2006

CURRENT YEAR FINDINGS – STATE COMPLIANCE

06-1 Treasury Bond

Condition: The State of Utah requires that every public treasurer shall secure a fidelity bond, based on the current year's budgeted gross revenues, which includes all funds collected or handled by a public treasurer. In the current year, the Academy did not secure a fidelity bond based on the current year's budgeted gross revenue.

Recommendation: We recommend that the Academy secure a fidelity bond based on fiscal year 2006 budgeted gross revenue.

Administration Response:

06-2 Purchasing Policies

Condition: The State of Utah requires that charter schools develop and follow purchasing policies. During the fiscal year ended June 30, 2006, the Academy did not always follow the established purchasing policies.

Recommendation: We recommend that the Academy follow the established purchasing policies.

Administration Response: